Healthcare Enterprise Group plc

Interim results

Healthcare Enterprise Group plc (AIM: HCEG, the “Group”, the “Company”) the international healthcare products group, today reports results for the 6 months ended 31 December 2008.

Interim highlights

- Revenue from continuing operations £248,000 (2007: £257,000)
- Pre-exceptional net operating expenses reduced to £0.7m (2007: £1.0m)
- Pre-exceptional operating loss reduced to £0.6m (2007: £0.9m)
- Net loss for the period was £1.3m (2007: £16.1m)
- Loss per share 0.3p (2007: Loss 5.2p)

As announced separately today, the Group has reached agreement, subject to shareholder approval, on a refinancing of the company whereby certain significant liabilities, including convertible unsecured loan stock, held by HCEG will be converted into a combination of equity in HCEG, shares in the company’s investment in First Aid Holdings Limited and subsidiaries Ebiox Limited (“Ebiox”) and Reproductive Sciences Limited (“RSL”).

In the future the Group expects to function as an investment holding company with a minimal overhead base which will be funded through a small-fund raising or further realisation of the Group’s investments. Notwithstanding the current economic climate, we remain convinced that Healthcare Enterprise Group has valuable investments in exciting niches of the healthcare market.

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Chairman's Statement
For the 6 months ended 31 December 2008 (unaudited)

Interim Results

The overall performance of the Group was as expected with turnover in the half year to 31 December 2008 of £248,000 (2007: £257,000). The operating subsidiaries sustained losses and the Group reported an operating loss before exceptional items of £0.6m (2007: loss £0.9m), although net operating expenses, before exceptional items, were reduced 36% to £0.66m (2007: £1.03m).

The carrying value of the Group's investment in First Aid Holdings Limited ("FAH") was impaired during the period resulting in a non-cash write off of £0.6m.

The loss before tax and after goodwill impairment and other exceptional expenses, was £1.3m (2007: loss £16.1m). The Group's loss per share was 0.3p (2007: loss per share 5.2p).

Ebiox

Ebiox sales in the period were £248,000 (2007: £257,000). This resulted in an operating loss for Ebiox of £0.1m (2007: loss £0.2m) for the six month period.

In September 2008 the Company announced that Ebiox had secured the services of Mr. John Honey, former senior VP with Reckitt Benckiser plc as Executive Chairman. The Company subsequently announced that it had sold 5% of its equity in Ebiox to partly repay secured loan stock holders.

On 4 June 2009, the Company announced that Ebiox had witnessed a surge in demand following the outbreak of swine flu, and that the Ebiox management team, headed by John Honey, was keen to take advantage of the flow of new orders. Accordingly, the Ebiox board determined that the best way for Ebiox to raise new funds (whilst the Company was still finalising its own restructuring) was to undertake a fundraising exercise directly. Subscriptions for £700,000 representing 36.8% of the enlarged share capital of Ebiox were received, of which £100,000 was repaid to the Company in the form of management fees. The Ebiox board believes that the balance of funds available to it should leave Ebiox adequately funded for the short and medium term.

It is hoped that, with the injection of new funds (as mentioned above), and the introduction of Mr. Nigel Wray to its board of Directors, Ebiox will be able to achieve

additional sales such as those which have now been contracted to Great Ormond Street Hospital under the Ebiox brand and generate further revenue by distributing additional complimentary non-proprietary products.

Reproductive Sciences Limited

RSL is currently focussed on Fertiligent’s “Evie” product, a high quality, low cost intra-uterine sperm pump to help assist infertile couples conceive. For a marginal price increase, Fertiligent offers infertile couples a dramatically enhanced IUI success rate and the chance of avoiding invasive and costly artificial reproductive techniques such as in vitro fertilisation.

RSL owns 29% of the issued capital in the Israeli Fertiligent Limited company, with options to increase that holding to 65% of the fully diluted capital. RSL also owns the exclusive, worldwide sale & marketing rights to the Israeli Fertiligent company's products.

A two-centre clinical study already conducted in Germany and Israel demonstrated that the Fertiligent "Evie" product increases the IUI success rate by a factor of 2.7, from 6% to 16%. A further clinical trial (supervised by Professor Martha Dirnfeld an acknowledged world leader in the field) is currently being conducted at the Carmel Medical Centre, Israel. Professor Dirnfeld is also a medical consultant to the London Bridge Clinic with, subject to funding, a clinical trial (also under her supervision) scheduled to commence in London shortly. Data from these trials will be used to support market entry in Europe, the US and in selected Asian and Latin American countries.

The Fertiligent "Evie" product is the first and only CE-approved slow release IUI device. The company received CE Mark clearance in Q2 2007 and has submitted an application to the US FDA in Q3 2008. FDA approval is expected later this year.

Once the product has received acceptable results in the second, two-centre clinical trial (defined as not less than bolus IUI pregnancy rates), RSL and Fertiligent will initiate a global commercialisation plan, including contract manufacture in the US, with the aim of commencing sales late in 2009 or early 2010.

As announced on 27 April 2009, RSL raised an additional US$100,000 (approximately £70,000) by the sale of a 25% equity stake to persons associated with Nigel Wray. Those funds were necessary to meet RSL's working capital requirements and to fund Fertiligent’s FDA application.

In order to achieve its commercial objectives, RSL will be required to raise additional capital, and the Company is currently involved in discussions with various potential new investors.

Other

The residual investment in FAH is considered non core and is to be realised at the first available opportunity. Other residual investments have been sold or mothballed and the Group plans no further investment in these products.

Current trading and outlook

The Company’s restructuring and refinancing plans were greatly affected by the world economic upheaval experienced during the period under review. The inability to raise new funds, either equity or debt, caused difficulties for the management and it was only through the financial support of a small group of investors that the Company has been able to survive.

The Board expects to continue to record a loss for the second half of the year at the operating level, although it is anticipated that this will be lower than the first half loss as the benefits of further cost reductions are experienced.

In the future the Group expects to function as an investment holding company with a minimal overhead base which will be funded through a small-fund raising or further realisation of the Group’s investments. Notwithstanding the current economic climate, we remain convinced that Healthcare Enterprise Group has valuable investments in exciting niches of the healthcare market.

Healthcare Enterprise Group plc

Consolidated income statement (unaudited)
for the 6 months ended 31 December 2008

	Notes	6 months to 30 June 2008 £'000	6 months to 30 June 2007 £'000
Revenue - continuing activities	2	248	257
Cost of sales		(168)	(132)
Gross profit		80	125

Net operating expenses - normal		(656)	(1,027)
Net operating expenses - exceptional	3	(571)	(9,720)
Total net operating expenses		(1,227)	(10,747)
Operating loss		(1,147)	(10,622)
Finance expense		(147)	(74)
Loss before taxation		(1,294)	(10,696)
Income tax expense		-	-
Loss from continuing operations		(1,294)	(10,696)
Discontinued operations – normal		-	(990)
Discontinued operations –exceptional	3	-	(4,452)
Loss from discontinued operations		-	(5,442)
Loss for the period		(1,294)	(16,138)
Attributable to:			
Equity holders of the parent		(1,294)	(16,148)
Minority interest		-	10
		(1,294)	(16,138)
Earnings per share			
From continuing operations:			
Basic (loss) per share	4	(0.3)p	(3.5)p
Diluted (loss) per share	4	(0.3)p	(3.5)p
From continuing and discontinued operations:			
Basic (loss) per share	4	(0.3)p	(5.2)p
Diluted (loss) per share	4	(0.3)p	(5.2)p

Healthcare Enterprise Group plc

Consolidated balance sheet (unaudited)

As at 31 December 2008

	Notes	As at 31 Dec 2008 £'000	As at 30 June 2008 £'000
Non-current assets			
Property, plant & equipment		38	41

Goodwill		3,300	3,300
Other intangible assets		504	534
Available for sale investments	6	1,370	2,164
		5,212	6,039
Current assets			
Inventories		43	36
Trade receivables		103	111
Other current assets		263	246
Cash and cash equivalents		41	47
		450	440
Total assets		5,662	6,479
Current liabilities			
Financial liabilities - borrowings	7	(668)	(549)
Trade and other payables		(1,651)	(1,706)
		(2,319)	(2,255)
Non-current liabilities			
Financial liabilities - borrowings	7	(2,028)	(1,900)
Other payables		(14)	(14)
		(2,042)	(1,914)
Total liabilities		(4,361)	(4,169)
Net assets		1,301	2,310
Equity attributable to the equity holders of the parent			
Ordinary shares		439	339
Share premium		42,273	42,088
Deferred shares		8,371	8,371
Retained earnings		(49,030)	(47,736)
Translation reserve		(68)	(68)
Other reserves		(684)	(684)
Total equity		1,301	2,310

Healthcare Enterprise Group plc

Consolidated cash flow statement (unaudited)
for the 6 months ended 31 December 2008

	6 months to 30 June 2008 £'000	6 months to 30 June 2007 £'000
Cash flows from operating activities		
Operating loss		
- continuing operations	(1,147)	(10,622)
- discontinued operations	-	(5,410)
- exceptional operating costs charged	571	14,172
Total group operating loss before exceptional items	(576)	(1,860)
Cash payments in respect of exceptional		
Costs and provisions	-	(705)
Depreciation and amortisation	35	101
(Increase)/decrease in working capital	(129)	1,541
Other	-	10
Net cash from operations	(670)	(913)
Interest paid	-	(105)
Net cash from operating activities	(670)	(1,018)
Cash flows from investing activities		
Purchase of plant and equipment	(1)	(34)
Development costs capitalised	-	(18)
Proceeds from sale of business	-	462
Purchase of other investments	(26)	-
Proceeds from sale of other investments	306	44
Net cash from investing activities	279	454
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	285	-
Debt due within one year		
- repayment of sterling borrowings	-	(1,637)
- issue of sterling borrowings	100	500
Debt due after more than one year		
- net movements on long term facilities	-	1,500
Net cash from financing activities	385	363
Net decrease in cash and cash equivalents	(6)	(201)
Cash and cash equivalents at 1 July	47	592
Cash and cash equivalents at 31 December	41	391

Healthcare Enterprise Group plc

Statements of changes in equity
for the 6 months ended 31 December 2008

Group	Issued capital £'000	Shares to be issued £'000	Share premium £'000	Deferred shares £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total equity £'000
At 1 July 2007	7,601	271	42,065	746	(905)	(88)	(28,825)	20,865	57	20,922
Equity element of convertible debt	-	-	-	-	126	-	-	126	-	126
Exchange losses offset in reserves	-	-	-	-	-	(11)	-	(11)	-	(11)
Disposal	-	-	-	-	-	-	-	-	10	10
Net income recognised directly in equity	-	-	-	-	126	(11)	-	115	10	125
Loss for the period	-	-	-	-	-	-	(16,138)	(16,138)	(10)	(16,148)
Total recognised expense for the year	-	-	-	-	126	(11)	(16,138)	(16,023)	-	(16,023)
Issue of shares	312	(271)	-	-	-	-	-	41	-	41
Share based payments	-	-	(51)	-	75	-	-	24	-	24
At 31 December 2007	7,913	-	42,014	746	(704)	(99)	(44,963)	4,907	57	4,964
At 1 July 2008	339	-	42,088	8,371	(684)	(68)	(47,736)	2,310	-	2,310
Loss for the period	-	-	-	-	-	-	(1,294)	(1,294)	-	(1,294)
Total recognised expense for the year	-	-	-	-	-	-	(1,294)	(1,294)	-	(1,294)
Issue of shares	100	-	185	-	-	-	-	285	-	285
At 31 December 2008	439	-	42,273	8,371	(684)	(68)	(49,030)	1,301	-	1,301

Healthcare Enterprise Group plc

Notes to the Group financial information
for the 6 months ended 31 December 2008

1. Basis of preparation and accounting policies

This condensed consolidated interim financial information for the 6 months ended 31 December 2008 has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”), as adopted by the European Union. This condensed consolidated interim financial information should be read in conjunction with the financial statements for the 16 months ended 30 June 2008, which have been prepared in accordance with IFRSs as adopted by the European Union.

This condensed consolidated interim financial information does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the 16 months period ended 30 June 2008 were approved by the Board of directors on 28 May 2009 and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement made under Section 498 of the Companies Act 2006 but did contain an emphasis of matter paragraph highlighting the significant uncertainty inherent in the going concern

basis of preparation given the Group's ongoing funding requirements. The emphasis of matter paragraph stated:

"Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the group's and company's ability to continue as a going concern. The group and company are dependent on continuing support of shareholders and the disposal of selective investments and assets in order to satisfy their liabilities and to provide funding to meet their ongoing costs. The group and company are currently engaged in a re-financing of debt which will require shareholder approval. The directors believe that shareholders will approve the proposals and will continue to support the group and company but this is not guaranteed. If the shareholders did not approve the proposals, the directors would have to seek alternative funding which is only likely to be through further disposals of investments, which if insufficient to satisfy its liabilities would mean the group and company would be unable to continue as a going concern. Along with the matters disclosed in note 1 to the financial statements these conditions indicate the existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern."

The disclosures made in note 1 referred to above related to the going concern basis of preparation of the financial statements and stated:

"The financial statements have been prepared on the going concern basis which assumes that the Group will be able to meet its liabilities as they fall due. The Group's portfolio of products include some at early stage and not yet in the marketplace and Ebiox which has lacked the investment required to be self-sustaining. Given the Group's continuing losses further funding will be required to meet the Group's continuing operating costs and liabilities.

Since the period end the Group has been funded by loans from supportive shareholders and selective sale of investments, most significantly those in First Aid Holdings Limited ("FAH"). The Group is currently engaged in a process of refinancing whereby it is proposed that certain significant liabilities, including convertible unsecured loan stock, held by Healthcare Enterprise Group plc ("HCEG") will be converted into a combination of equity in HCEG, Ebiox Limited, Reproductive Sciences Limited and FAH. The proposed refinancing will require shareholder approval and the directors believe that shareholders will approve the proposals.

In the future the Group expects to function as an investment holding company with a minimal overhead base which will be funded through a small fund-raising exercise or the further realisation of the Group's investments. The directors believe that the Group's plans are achievable given the continued support of significant shareholders and the ability to achieve piecemeal investment sales already evidenced in the period since the 30 June 2008. However these conditions constitute a material uncertainty that may cast significant doubt about the group's and company's ability to continue as a going concern. After making enquiries, and considering the uncertainties surrounding the potential refinancing and future operations described above, the directors have a reasonable expectation that the Group and the Company have adequate resources, or the expectation of access to adequate resources, to continue trading for the foreseeable future. It is therefore appropriate to prepare the financial statements on a going concern basis."

The basis of preparation described above for the period ended 30 June 2008 is the same basis used to prepare these interim financial statements.

This condensed consolidated interim financial information has neither been reviewed or audited.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the 16 month period ended 30 June 2008, as described in those financial statements.

As required by IAS 34 and consistent with prior years, taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The implementation of the standards and interpretations listed in the 2008 financial statements with an effective date for accounting periods beginning on 1 January 2008 have not had a material impact on the interim financial information for the six months ended 31 December 2008.

2. Segmental reporting

Primary reporting format – business segments

	Ebiox		Fertiligent		Other and corporate		Total	
Continuing operations	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Segment revenue	248	257	-	-	-	-	248	257
Operating loss before exceptional items	(101)	(188)	(64)	-	(411)	(714)	(576)	(902)
Exceptional operating costs	-	-	-	-	(571)	(9,720)	(571)	(9,720)
Segment result	(101)	(188)	(64)	-	(982)	(10,434)	(1,147)	(10,622)
Interest payable							(147)	(74)
Loss before taxation							(1,294)	(10,696)
Taxation							-	-
Loss for the period from continuing operations							(1,294)	(10,696)

All revenue for the period comes from the sale of disinfectant products, originating in the United Kingdom. Revenue for Ebiox is not significantly seasonal.

3. Exceptional items

	2008 £'000	2007 £'000
Exceptional items relating to continuing operations		
Reorganisation costs	-	219
Impairment of other assets	571	85
Disposals of investments	-	(215)
Impairment of goodwill	-	9,631
	571	9,720
Exceptional items relating to discontinued operations		
Reorganisation costs	-	534
Impairment of Goodwill	-	3,918

	-	4,452

2008 Exceptional items

In December 2008 the directors reviewed the carrying value of its available for sale investments for impairment. In light of this review the directors decided to impair the Group's investment in First Aid Holdings Limited. The remaining holding is valued at £1.25 per share (30 June 2008: £2.00 per share).

4. Loss per share
(a) Basic loss per share

	2008 £'000	2007 £'000
Loss attributable to equity holders of the Company	(1,294)	(16,148)
Discontinued operations	-	5,442
Loss attributable to equity holders of the Company from continuing operations	(1,294)	(10,706)

The weighted average number of ordinary shares in issue during the period was 413,918,463 (2007: 308,680,503).

(b) Diluted loss per share
Because the inclusion of potential ordinary shares would decrease the basic loss per ordinary share they are not deemed to be dilutive and accordingly the basic and diluted loss per ordinary share are identical.

5. Related party transactions

HJM Tompkins is the Managing Director of Thurloe Capital Partners Limited and controls this related company. The Group purchased and accrued management services, including directors fees, from Thurloe Capital Partners Limited totalling £6,250 (2007: £20,000) in the period. As at 31 December 2008 the Group owed Thurloe Capital Partners Limited £6,463 (30 June 2008: £12,338). HJM Tompkins resigned as Non-Executive Chairman of the Group on the 2 December 2008.

LJ Gaborit is the Executive Chairman of Industrial Management and Equity Limited ('IME') and controls this company. The Group purchased strategic consultancy services from IME totalling £90,000 (2007: £114,000) in the period. As at 31 December 2008 the Group owed IME for services invoiced £nil (30 June 2008: £nil) and total accruals for services provided but not invoiced under the terms of the contract of £244,000 (30 June 2008: £244,000).

JH Gunn is a Director of Wengen Limited and controls this company. The Group purchased advisory services, including directors fees, from Wengen Limited totalling £12,500 (2007: £8,333). As at 31 December 2008 the Group owed Wengen Limited £14,688 (30 June 2008: £3,646). JH Gunn is also an Executive Deputy Chairman of Ludgate Investments Limited ('Ludgate') an early stage venture capital provider for high growth companies. Ludgate have performed occasional corporate finance advisory project related work for the Group, services purchased from Ludgate totalled £nil (2007: £70,250).

Crest Medical Limited ('Crest') was sold by the Group to First Aid Holdings Limited ('FAH') on 4 April 2008 in return for shares in FAH. The Group still shares premises with Crest and has purchased services related to these premises in the period to 31 December 2008 amounting to £126,719 in the period since its sale. The Group's Ebiox business also trades with Crest and made sales of £12,633 in the period since its sale. At 31 December 2008 the Group owed Crest £313,879 (30 June 2008: £408,036) and was due from Crest £14,449 (30 June 2008: £116,409). As part of its obligations under the sale agreement, the Group has also made an unsecured loan to Crest of £196,318 (30 June 2008: £196,318) which was repaid in February 2009.

6. Available for sale investments

	6 months to 31 December 2008 £'000	16 months to 30 June 2008 £'000
Beginning of the period	2,164	682
Additions	82	2,561
Disposed	(305)	(258)
Impairment	(571)	(821)
End of the period	1,370	2,164

Available for sale investments comprise:

761,250 shares in First Aid Holdings ("FAH") Limited. In July 2008, 128,750 shares in FAH were sold for £257,000. During December 2008 the remaining shares were reviewed for impairment by the directors and subsequently written down by £571,000 (see note 3) to give a closing investment of £952,000 or £1.25 a share (30 June 2008: £2.00 per share). As at 31 December 2008 the Group owned 29% (30 June 2008: 34%) of the issued share capital of FAH. FAH has not been treated as an associate because it is independently managed and there is no intention to engage or participate in the business on an ongoing basis. The shares are held for disposal and will be disposed of by management at the first available opportunity to realise appropriate shareholder value and are being actively marketed. Sales of FAH shares post-period end have brought the level of investment in FAH below the level where the assumption of associate status must be rebutted.

A £52,000 (30 June 2008: £100,000) investment in shares and warrants in two entities ValiRX plc and Cancer Therapeutics Incorporated. During the period shares in ValiRX plc were sold for £48,000.

A £69,000 (30 June 2008: £69,000) investment in Medilator Limited representing a 3% interest in the share capital of an Israeli company developing reproductive health products.

A £297,000 (30 June 2008: £215,000) investment in Fertiligent Limited representing a 29% interest in the share capital of an Israeli company developing reproductive health medical devices. Despite its 29% interest Healthcare Enterprise Group plc does not consider it has a significant interest in Fertiligent Limited as the company is

independently run by a strong local management team from a separate legal jurisdiction in which the Group has no day to day representation.

The relatively early stage of development of the products of Medilator Limited and Fertiligent Limited means that it is difficult to determine the fair value of the investments, which are currently held at cost, being the directors' best estimate of fair value as at 31 December 2008 and 30 June 2008.

The write down of available for sale investments in the year was shown in the income statement as a permanent impairment in the value of the investment rather than a change in fair value that would be recognised in equity.

7. Financial liabilities - borrowings

	As at 31 December 2008 £'000	As at 30 June 2008 £'000
£0.5m 8% secured loan notes 2008	500	490
£1.75m 8% convertible unsecured loan notes 2012	1,628	1,600
£0.4m other unsecured loans	400	300
Other (including accrued interest)	168	59
Total	2,696	2,449

The £0.5m secured loan notes were repayable in December 2008, however repayment has been deferred, with the agreement of the note holders, until a refinancing package has been completed. The terms previously applicable for the £0.5m secured loan notes remain in force.

8. Post balance sheet events

Since the period end the Group has been funded by loans from supportive shareholders and selective sale of investments, most significantly those in First Aid Holdings Limited ("FAH"). The Group is currently engaged in a process of refinancing whereby it is proposed that certain significant liabilities, including convertible unsecured loan stock, held by Healthcare Enterprise Group plc ("HCEG") will be converted into a combination of equity in HCEG, Ebiox Limited ("Ebiox"), Reproductive Sciences Limited and FAH.

The value realised in the refinancing for part of the Group's economic interest in Ebiox is expected by the directors to be significantly below the valuation of the Group's economic interest as at 31 December 2008. However it the directors' opinion that this is due to conditions and events since 31 December 2008 and the changes will be reflected in the financial statements to 30 June 2009. The potential impairment to be recognised is estimated by directors to be £0.7m.